



**Paul Bachman**  
**Testimony before the Michigan Senate**  
**Reforms, Restructuring, and Reinventing Committee**  
**on Senate Bill 165**

Wednesday, March 9, 2011

Lansing, MI

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I am Director of Research at the Beacon Hill Institute (BHI) and an Adjunct Professor in economics at Suffolk University. I would like to thank the Reforms, Restructuring, and Reinventing Committee and Chairman Jansen for this opportunity to testify.

I will testify to the results of my research on the effect of Project Labor Agreements (PLAs) on public construction costs, the factors of PLAs that serve to raise construction costs and the fiscal implications of Senate Bill 165.

BHI conducted analyses of school building projects in Massachusetts (Bachman et al. 2003), Connecticut (Bachman, Houghton, and Tuerck 2004), and New York (Bachman and Tuerck 2006) to provide an answer to the question of whether PLAs increase construction costs or not. We used regression analysis to determine how PLAs and other independent variables, such as building size, affected the cost per square foot of building a school.

We selected school building projects for analysis because they are sufficiently comparable to make it possible to identify a limited number of independent variables that explain cost differences. The Massachusetts regression showed

that a PLA added 14 percent to bid cost. A regression performed on projects for which data were available, showed that PLAs added 12 percent, to final construction costs (Bachman et al. 2003).

The regressions were highly robust for alternative specifications, in which we used other independent variables, such as whether a school was an elementary school or not, and divided the samples between small, medium, and large projects and between new projects and renovations. The bottom line was that no matter how we sliced the data, PLAs increased construction costs.

BHI performed similar analyses for Connecticut and New York. We found that PLAs added 17 percent, to bid costs and 18 percent, to final construction costs in Connecticut. We found that PLAs added 20 percent to bid costs in New York (Bachman and Tuerck 2006). Those findings also were robust for alternative regression specifications.

Other studies show that bidding public contracts under a PLA artificially reshapes and limits the pool of potential qualified bidders. A 2001 Ernest & Young study of the Erie County Courthouse construction project in New York found that the PLA actually shrank the bidding pool to those "signatory" union contractors and thus reduced the number of competitive bids the project received.<sup>1</sup>

The experience of Fall River, Massachusetts provides a "real-world" case study demonstrating the effect of a PLA on construction costs. The city bid three school construction projects under a PLA, but the projects attracted few bidders and the contractors who submitted bids exceeded the city's budget. The city subsequently canceled the PLA and reopened the bidding process. As a result the number of bidders soared and the new bids resulted in savings of 8% to 12% (Bachman and Tuerck 2006).

Several provisions common to most PLAs operate to limit the supply of qualified bidders from the bidding pool and thus serve to increase construction costs. These include: (1) workers employed on any PLA project must be hired through the hiring halls maintained by the unions signatory to the PLA (signatory unions); (2) contractors must pay fringe benefits into funds maintained by the signatory unions whether or not the contractors already pay fringe benefits into

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<sup>1</sup> Erie County Courthouse Construction Projects: Project Labor Agreement Study, Ernest & Young (Philadelphia, PA: September 10, 2001).

other funds for their own workers; (3) workers must pay union dues, whether or not the workers belong to the signatory union; and (4) the work rules on each PLA project are governed by the signatory union for each trade even if potential bidders employ more productive work rules and techniques that are prohibited under the PLA work rules.

These provisions favor contractors that hire labor from the signatory unions, they serve to increase costs for non-signatory contractors, and deter non-union or non-signatory union contractors from bidding on PLA-covered projects. Therefore, both theory and evidence support the conclusion that PLAs have a substantial chilling effect on the willingness of qualified bidders to bid and on their ability to submit low bids. The winning bid price is an important determinant of final construction cost, and the number of bidders is an important determinant of the winning bid price.

PLAs can have a significant impact on the cost of public construction projects. In our 2009 study, we estimated that the Bush administration ban on the use of PLAs for federally funded construction projects saved the federal government \$1.6 to \$2.6 billion in 2008 alone (Tuerck, Glassman, and Bachman 2009).

Michigan's state and local governments faces serious budget challenges. Both economic theory and empirical evidence show that PLAs increase construction costs. My research shows that Senate Bill 165 would save between 12% and 18% on public construction projects that would have been bid with a PLA.